

Tax Tips to Consider as 2006 Winds Down

About the last thing anyone wants to do at holiday time is think about taxes, but it makes sense to check your yearend tax situation with a tax professional or a financial planner to make sure you've done everything in December to be ready for April.

Here's a list of tax tips that might make a difference on your 2006 return:

Face the AMT, don't fear it. Even though Congress approved a one-year band-aid intended to prevent 15 million new taxpayers from getting hit by the dreaded alternative minimum tax (AMT), you need to check to see if you're on the hit list. Essentially, if you qualify for the AMT, it blocks (or adds back into AMT taxable income) deductions of state and local taxes, home equity loan interest (unless you used the money solely for home improvements), personal exemptions or other potential deductions. Any of the following factors besides your income could trigger the AMT based on their size and amount:

- State and local taxes paid
- Deductible medical expenses
- Capital gains
- Miscellaneous itemized deductions
- The bargain element of stock options

Get some advice. If you determine that you have crossed the threshold for the AMT, you may want to defer taking some of those targeted deductions.

Defer that income, raise those deductions. Again, taking factors like the AMT into consideration if you qualify, make sure you've reviewed all deductions you're eligible to take while looking for opportunities to defer income into 2007 to save money on taxes. Likewise, see if you can push your annual bonus into next year to cut your 2006 tax bill.

Do a last-minute energy review. The Energy Policy Act of 2005 may make you eligible for up to \$500 in tax credits if you had such items as an energy-qualified furnace, windows, and solar heating equipment placed in service after Dec. 31, 2005 and before Jan. 1, 2008. Also, if you bought a hybrid car or truck in 2006, see if your purchase qualifies for a tax break of as much as \$2,600 for the most fuel-efficient models.

Get money into those retirement accounts. If you haven't elected to participate in your company's 401(k) plan or don't have a traditional or Roth IRA, make this the year you change all that. You have until April 15 to open an IRA and make a deposit, and make a resolution to put the maximum into your company's retirement savings plans. You're not only saving money on taxes, you're planning for your future.

Write those checks. See if you would benefit by paying next year's quarterly state and federal tax early and see if you can squeeze in your January mortgage payment before Dec. 31. That means more deductions in 2006.

Sell some losers. Do a portfolio and tax review to see if it makes sense to peddle some money-losing investments in taxable accounts to offset capital gains for the year. While capital losses are put together with capital gains, they can be deductible against up to \$3,000 in income.

Give to charity. Both cash and property donations can be deducted for the current year, but be circumspect about getting receipts for items exceeding \$250 in value or higher. If you're 70½ or older, you now can make tax-free distributions of up to \$100,000 a year from your IRA directly to a charity both this year and next – this can be particularly effective for those whose charitable deductions already exceed income limitations.

Give to the kids. Gifts of up to \$12,000 per child don't need to be reported. Also check whether it makes sense to deposit that gift in a 529 College Savings Plan designated for that child with your children or grandchildren as beneficiary.

Check your sales tax payments. If you paid a significant amount of sales tax from the purchase of a car or boat during 2006, start totaling up all your sales tax receipts for the year. Unless Congress fails to act by the end of the year, you might have the option of choosing between deducting your state income taxes or state sales taxes for the maximum benefit to your tax situation.

For more information on being a “tax survivor,” read *Timeless Tax Planning in a Changing Tax World* on the Financial Planning Association's Web site (www.fpanet.org/public/tools/brochures.cfm).

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